

QUARTERLY REPORT

LICENSEE ATLANTIC CITY SHOWBOAT, INC

FOR THE QUARTER ENDED JUNE 30, 2001

TO THE

CASINO CONTROL COMMISSION

OF THE

STATE OF NEW JERSEY

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

BALANCE SHEETS

AS OF JUNE 30, 2001 AND 2000

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2001 (c)	2000 (d)
	ASSETS		
	Current Assets:		
1	Cash and Cash Equivalents.....	24,739	\$ 17,895
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2001, \$1,197 ; 2000, \$1,499).....NOTE 3	6,430	7,252
4	Inventories.....	2,192	2,340
5	Prepaid Expenses and Other Current Assets.....NOTE 4	4,767	4,402
6	Total Current Assets.....	38,128	31,889
7	Investments, Advances, and Receivables.....NOTE 5 & 11	871,825	767,334
8	Property and Equipment - Gross.....	504,523	494,684
9	Less: Accumulated Depreciation and Amortization.....	(246,705)	(235,900)
10	Property and Equipment - Net.....	257,818	258,784
11	Other Assets.....	2,611	3,172
12	Total Assets.....	\$ 1,170,382	\$ 1,061,179
	LIABILITIES AND EQUITY		
	Current Liabilities:		
13	Accounts Payable.....	3,845	5,594
14	Notes Payable.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates.....	-	-
16	Other.....	-	-
17	Income Taxes Payable and Accrued.....	-	-
18	Other Accrued Expenses.....NOTE 6	36,131	39,038
19	Other Current Liabilities.....	(358)	507
20	Total Current Liabilities.....	39,618	45,139
	Long-Term Debt:		
21	Due to Affiliates.....NOTE 8	715,000	715,000
22	Other.....	-	-
23	Deferred Credits.....	22,095	17,957
24	Other Liabilities.....NOTE 7	340,840	216,967
25	Commitments and Contingencies.....NOTE 12		
26	Total Liabilities.....	1,117,553	995,063
27	Stockholders', Partners', or Proprietor's Equity.....	52,829	66,116
28	Total Liabilities and Equity.....	\$ 1,170,382	\$ 1,061,179

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the notes.

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2001 (c)	2000 (d)
	Revenue:		
1	Casino.....	\$ 167,497	\$ 169,461
2	Rooms.....	7,041	8,809
3	Food and Beverage.....	19,694	19,033
4	Other.....	3,085	2,930
5	Total Revenue.....	197,317	200,233
6	Less: Promotional Allowances.....	19,640	19,588
7	Net Revenue.....	177,677	180,645
	Costs and Expenses:		
8	Cost of Goods and Services.....	91,527	91,410
9	Selling, General, and Administrative.....	40,179	41,458
10	Provision for Doubtful Accounts.....	442	465
11	Total Costs and Expenses.....	132,148	133,333
12	Gross Operating Profit.....	45,529	47,312
13	Depreciation and Amortization.....	11,901	11,493
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	9,239
15	Other..... NOTE 2, 9 & 10	17,336	6,369
16	Income (Loss) from Operations.....	16,292	20,211
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates..... NOTE 8	(28,864)	(28,865)
18	Interest (Expense) - External.....	-	-
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(383)	(405)
20	Nonoperating Income (Expense) - Net.....	405	446
21	Total Other Income (Expenses).....	(28,842)	(28,824)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	(12,550)	(8,613)
23	Provision (Credit) for Income Taxes.....	-	-
24	Income (Loss) Before Extraordinary Items.....	(12,550)	(8,613)
	Extraordinary Items (Net of Income Taxes -		
25	2000, \$; 1999, \$).....	-	-
26	Net Income (Loss).....	\$ (12,550)	\$ (8,613)

The accompanying notes are an integral part of the financial statements.
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STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2001 AND 2000

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2001 (c)	2000 (d)
	Revenue:		
1	Casino.....	\$ 90,228	\$ 88,747
2	Rooms.....	3,463	4,979
3	Food and Beverage.....	11,172	10,256
4	Other.....	1,960	1,373
5	Total Revenue.....	106,823	105,355
6	Less: Promotional Allowances.....	10,851	10,890
7	Net Revenue.....	95,972	94,465
	Costs and Expenses:		
8	Cost of Goods and Services.....	47,222	46,438
9	Selling, General, and Administrative.....	22,637	21,846
10	Provision for Doubtful Accounts.....	192	60
11	Total Costs and Expenses.....	70,051	68,344
12	Gross Operating Profit.....	25,921	26,121
13	Depreciation and Amortization.....	6,025	5,654
	Charges from Affiliates Other than Interest:		
14	Management Fees..... NOTE 2	-	9,239
15	Other..... NOTE 8	8,741	(1,381)
16	Income (Loss) from Operations.....	11,155	12,609
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....	(14,432)	(14,433)
18	Interest (Expense) - External.....	-	-
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(206)	(177)
20	Nonoperating Income (Expense) - Net.....	212	275
21	Total Other Income (Expenses).....	(14,426)	(14,335)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	(3,271)	(1,726)
23	Provision (Credit) for Income Taxes.....	-	-
24	Income (Loss) Before Extraordinary Items.....	(3,271)	(1,726)
	Extraordinary Items (Net of Income Taxes -		
25	1999, \$; 1998, \$).....	-	-
26	Net Income (Loss).....	\$ (3,271)	\$ (1,726)

The accompanying notes are an integral part of the financial statements.
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TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2000 AND THE SIX MONTHS ENDED JUNE 30, 2001

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	(h)	Retained Earnings (Accumulated) (Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
		Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 1999.....	1,500	\$ 70,492	-	\$ -	\$ -	\$ -	\$ 4,237	\$ 74,729
2	Net Income (Loss) - 2000.....							(9,350)	(9,350)
3	Contribution to Paid-in-Capital.....								
4	Dividends.....								
5	Prior Period Adjustments.....								
6									
7									
8									
9									
10	Balance, December 31, 2000.....	1,500	70,492	-	-	-	-	(5,113)	65,379
11	Net Income (Loss) - 2001.....							(12,550)	(12,550)
12	Contribution to Paid-in -Capital.....								
13	Dividends.....								
14	Prior Period Adjustments.....								
15	1999 Income Tax Adjustment								
16									
17									
18									
19	Balance, June 30, 2001.....	1,500	\$ 70,492	-	\$ -	\$ -	\$ -	\$ (17,663)	\$ 52,829

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2001 (c)	2000 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 15,644	\$ 12,040
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....		
3	Proceeds from the Sale of Short-Term Investment Securities.....		
4	Cash Outflows for Property and Equipment.....	(11,402)	(15,176)
5	Proceeds from Disposition of Property and Equipment.....	134	88
6	Purchase of Casino Reinvestment Obligations.....	(1,741)	(1,415)
7	Purchase of Other Investments and Loans/Advances made.....		
8	Proceeds from Disposal of Investments and Collection of Advances and Long-Term Receivables.....		
9	Cash Outflows to Acquire Business Entities.....		
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(13,009)	(16,503)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....		
14	Payments to Settle Short-Term Debt.....		
15	Cash Proceeds from Issuance of Long-Term Debt.....		
16	Costs of Issuing Debt.....		
17	Payments to Settle Long-Term Debt.....		
18	Cash Proceeds from Issuing Stock or Capital Contributions.....		
19	Purchases of Treasury Stock.....		
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....	-	-
24	Net Increase (Decrease) in Cash and Cash Equivalents.....	2,635	(4,463)
25	Cash and Cash Equivalents at Beginning of Period.....	22,104	22,358
26	Cash and Cash Equivalents at End of Period.....	\$ 24,739	\$ 17,895

	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ -	\$ -
28	Income Taxes.....	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.
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STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2001 (c)	2000 (d)
	NET CASH FLOWS FROM OPERATING ACTIVITIES:		
29	Net Income (Loss).....	\$ (12,550)	\$ (8,613)
	Noncash Items Included in Income and Cash Items Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment.....	11,901	11,493
31	Amortization of Other Assets.....	170	170
32	Amortization of Debt Discount or Premium.....		
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	-	-
35	(Gain) Loss on Disposition of Property and Equipment.....	22	(15)
36	(Gain) Loss on Casino Reinvestment Obligations.....	383	273
37	(Gain) Loss from Other Investment Activities.....		
	Net (Increase) Decrease in Receivables and Patrons'		
38	Checks.....	(563)	(1,656)
39	Net (Increase) Decrease in Inventories.....	(62)	313
40	Net (Increase) Decrease in Other Current Assets.....	(1,581)	(306)
41	Net (Increase) Decrease in Other Assets.....	(156)	195
42	Net Increase (Decrease) in Accounts Payable.....	(413)	592
	Net Increase (Decrease) in Other Current Liabilities		
43	Excluding Debt.....	(915)	(1,070)
	Net Increase (Decrease) in Other Noncurrent Liabilities		
44	Excluding Debt.....	67,920	66,026
45	Net (Increase) Decrease in Invest., Advances, and Receivables.....	(48,512)	(55,362)
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ 15,644	\$ 12,040

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:		
48	Additions to Property and Equipment.....	\$ 11,402	\$ 15,176
49	Less: Capital Lease Obligations Incurred.....		
50	Cash Outflows for Property and Equipment.....	\$ 11,402	\$ 15,176
	ACQUISITION OF BUSINESS ENTITIES:		
51	Property and Equipment Acquired.....	\$	\$
52	Goodwill Acquired.....		
	Net Assets Acquired Other than Cash, Goodwill, and		
53	Property and Equipment.....		
54	Long-Term Debt Assumed.....		
55	Issuance of Stock or Capital Invested.....		
56	Cash Outflows to Acquire Business Entities.....	\$	\$
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:		
57	Total Issuances of Stock or Capital Contributions.....	\$	\$
58	Less: Issuances to Settle Long-Term Debt.....		
59	Consideration in Acquisition of Business Entities.....		
60	Cash Proceeds from Issuing Stock or Capital Contributions.....	\$	\$

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT

AMENDED
8/6/01

SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

(\$ IN THOUSANDS)

FOR THE SIX MONTHS ENDED JUNE 30, 2001

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	116,888	\$ 6,361		
2	Food	658,765	7,905		
3	Beverage	4,019,742	4,397		
4	Travel			5,423	949
5	Bus Program Cash			463,105	7,122
6	Other Cash Complimentaries			418,538	16,499
7	Entertainment	9,884	448		
8	Retail & Non-Cash Gifts				
9	Parking				
10	Other	60,374	529	15,994	1,200
11	Total	4,865,653	\$ 19,640	903,060	\$ 25,770

FOR THE THREE MONTHS ENDED JUNE 30, 2001

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	61,947	\$ 3,081	-	\$ -
2	Food	382,529	4,590	-	-
3	Beverage	2,647,000	2,436	-	-
4	Travel	-	-	3,075	538
5	Bus Program Cash	-	-	264,291	3,859
6	Other Cash Complimentaries	-	-	133,850	9,313
7	Entertainment	7,655	392	-	-
8	Retail & Non-Cash Gifts	-	-	-	-
9	Parking	-	-	-	-
10	Other	40,115	352	8,934	670
11	Total	3,139,246	\$ 10,851	410,150	\$ 14,380

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
June 30, 2001 and 2000

(1) Summary of Significant Accounting Policies

Nature of Operations

Atlantic City Showboat, Inc. (the Company), is a wholly owned subsidiary of Ocean Showboat, Inc. (OSI), which is a wholly owned subsidiary of Showboat, Inc. (SBO). SBO is a wholly owned subsidiary Harrah's Operating Company, Inc. (HOC), which is a direct wholly owned subsidiary of Harrah's Entertainment, Inc. (HARRAH'S). OSI was incorporated in 1983 and is a holding company with its principal assets being investments in the Company. The Company conducts casino gaming operations and operates full supportive services of hotel, restaurant, bar, and convention facilities at the Showboat Hotel and Casino in Atlantic City, New Jersey (Atlantic City Showboat).

On June 1, 1998, HARRAH'S, a Delaware corporation, purchased SBO and its subsidiaries in an all cash transaction.

Disclosure

There has been no significant changes to the information submitted in our December 31, 2000 Annual Report.

(2) Related Party Transactions

The Company and SBO are parties to a Parent Services Agreement whereby SBO provides the Company with executive, financial, data processing, legal, marketing, tax planning and compliance, and administrative services. SBO's services are intended to support and supplement the routine functions and responsibilities of the Company's staff and are not intended to substitute for the Company's performance or OSI's oversight responsibilities. In addition to the services outlined above, SBO has also granted the Company a non-exclusive right to the use of each of SBO's trademarks, service marks, tradenames, and logos in the operations of the Company's business, including the registered trademark "Showboat." In consideration for such services and license, the Company has agreed to pay SBO a fee equal to five percent of gross revenues.

In 1999 the Company entered into a new license agreement with SBO for the use of certain trademarks. Under the agreement the Company is required to pay a fixed license fee of \$18,478,000 per year through 2000. In 2001, the licensing agreement has been submitted for renewal for an additional five-year period and the annual fee will increase to \$26,967,000. For the six months ended June 30, 2001 the Company's license fee was \$9,239,000.

The Company is charged a fee from HOC for administrative services (including legal, accounting and insurance). The Company was charged \$2,926,000 for the six months ended June 30, 2001.

Continued

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements

Related Party Transactions (continued)

The Company transfers cash in excess of its operating needs to HOC on a daily basis. Cash transfers from HOC to the Company are also made based upon the needs of the Company to fund daily operations, including accounts payable and payroll, as well as capital expenditures. No interest is earned on the amount shown as due to (from) affiliates in the accompanying statements.

(3) Receivables and Patron's Checks

As of June 30, 2001 and 2000, receivables and patron's checks consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
Casino	\$5,462	\$5,687
Hotel	308	303
Due from CRDA	157	138
Other	<u>1,700</u>	<u>2,623</u>
	7,627	8,751
Less allowance for doubtful accounts	<u>1,197</u>	<u>1,499</u>
	<u><u>\$6,430</u></u>	<u><u>\$7,252</u></u>

(4) Prepaid Expenses & Other Current Assets

As of June 30, 2001 and 2000, prepaid expenses and other current assets consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
Prepaid income taxes	0	\$1,287
Prepaid slot license	1,635	1,782
Prepaid Insurance	25	84
Prepaid Rent	830	0
Deposits	211	225
Other	<u>2,066</u>	<u>1,024</u>
	<u><u>\$4,767</u></u>	<u><u>\$4,402</u></u>

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements

(5) Investments, Advances & Receivables

As of June 30, 2001 and 2000, investments, advances and receivables consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
Casino Reinvestment Development Authority Deposits - Net of Valuation Allowance of \$3,620 and \$3,281 at June 30, 2001 and 2000 respectively.	\$11,158	\$8,064
Casino Reinvestment Development Authority Bonds – Net of Valuation Allowance of \$2,332 and \$1,913 at June 30, 2001 and 2000 respectively.	5,592	4,422
Due From Affiliates	<u>855,075</u>	<u>754,848</u>
	<u>\$871,825</u>	<u>\$767,334</u>

As of June 30, 2001 and 2000, due from affiliates consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
Showboat Operating Company	\$11	\$61
Harrah's Ak-Chin.	290	0
Showboat East Chicago	0	4
Harrah's Atlantic City	2,409	3,776
Showboat Indiana	135	146
Corporate Debt & Investments	684,853	646,488
Harrah's New Orleans	2	2
Corporate Bank Accounts	165,891	104,068
Corp Admin	1,427	291
Harrah's Marketing Group	3	0
Harrah's Lake Tahoe	22	0
Harrah's North Kansas City	32	0
Harrah's Illinois Corp	<u>0</u>	<u>12</u>
	<u>\$855,075</u>	<u>\$754,848</u>

(6) Other Accrued Expenses

As of June 30, 2001 and 2000, other accrued expenses consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
Salaries and wages	\$5,841	\$5,769
Taxes, other than taxes on income	2,227	2,087
Accrued advertising and promotion	402	2,006
Accrued interest	22,065	22,065
Warehouse Lease	21	1,928
Other	<u>5,575</u>	<u>5,183</u>
	<u>\$36,131</u>	<u>\$39,038</u>

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements

(7) Other Liabilities

As of June 30, 2001 and 2000, other liabilities consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
Due to Affiliates, long-term	\$340,569	\$216,091
Other	<u>271</u>	<u>876</u>
	<u>\$340,840</u>	<u>\$216,967</u>

As of June 30, 2001 and 2000, due to affiliates consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
Showboat Inc.	\$114,194	\$48,105
Corporate Allocations	27,989	16,052
Las Vegas	214	27,940
Lake Tahoe	0	4
Reno	15	14
Memphis IT	957	116
Ocean Showboat	38	38
Harrah's Atlantic City	2,065	808
Harrah's Tunica	10	0
Harrah's Illinois	21	0
Harrah's Laughlin	5	0
Rio Las Vegas	88	0
Risk Management	4,750	2,697
National Brand Advertising Fund	2,862	471
North East Regional Office	155	0
Showboat Operating Company	528	528
Corporate Debt & Investment	63,728	34,733
AC Showboat Elimination	<u>122,950</u>	<u>84,585</u>
	<u>\$340,569</u>	<u>\$216,091</u>

(8) Long Term Debt, Due to Affiliates

As of June 30, 2001 and 2000 long-term debt, due to affiliates consisted of the following (dollars in thousands):

	<u>2001</u>	<u>2000</u>
9 ¼ % Promissory Note - Due 2008	\$215,000	\$215,000
7 ½ % Promissory Note - Due 2009	<u>500,000</u>	<u>500,000</u>
Total Long Term Debt	<u>\$715,000</u>	<u>\$715,000</u>

On May 18, 1993, SBO issued \$275,000,000 of 9 ¼ % First Mortgage Bonds due 2008 (9 ¼ % Bonds) and subsequently loaned approximately \$215,000,000 of the proceeds to the Company evidenced by an intercompany note with terms and conditions consistent with those of the 9 ¼ % Bonds.

Continued

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements

(8) Long Term Debt, Due to Affiliates (Cont.)

Subsequent to the closing of the acquisition, HARRAH'S completed tender offers and consent solicitations for SBO's 9 1/4% Bonds. As a result of the receipt of the requisite consents, HARRAH'S eliminated or modified substantially all of the negative covenants, certain events of default and made other changes to the respective indentures governing the 9 1/4% Bonds. The Company's intercompany note with SBO remained unchanged.

On January 15, 1999 the HOC loaned the Company \$500,000,000 which loan is evidenced by an intercompany note. The loan is secured by the assets of the Company.

For value received, the Company promises to pay HOC the principle sum of \$500,000,000 on January 15, 2009 and to pay interest thereon at the rate of 7 1/2 % per annum. Payments of interest shall be made semiannually on January 15 and July 15 of each year, commencing July 15, 1999, and shall be calculated on the basis of a 360-day year.

(9) Leases

The Company leases a warehouse under a lease agreement that was extended in April 2001 and now provides the option to purchase the warehouse from January 1, 2006 through March 31, 2006 at an option price of approximately \$1,928,000.

The Company is leasing 10 1/2 acres of Boardwalk property in Atlantic City, New Jersey for a term of 99 years commencing October 1983. Annual rent payments, which are payable monthly, commenced upon opening of the Atlantic City Showboat. The rent is adjusted annually based upon changes in the Consumer Price Index. In April 2001, the annual rent increased \$293,000 to \$9,966,000. The Company is responsible for taxes, assessments, insurance and utilities.

On January 28, 1998, a subsidiary of SBO acquired the 10 1/2 acres of Boardwalk property and the lease from SUN International North America Inc. (SUN). The company's obligations under the lease remain intact and SBO's subsidiary will assume the duties as Lessor.

(10) EMPLOYEE BENEFIT PLANS

The Company maintains a retirement and savings plan for eligible employees who are not covered by a collective bargaining agreement. Under the terms of the plan adopted on July 1, 1999, eligible employees may defer up to 6% of their compensation, as defined, of which 100% of the deferral is matched by the Company. Eligible employees may contribute an additional 10% of their compensation, which will not be matched by the Company. Amounts contributed by the Company vest over a five-year period. The Company contributed \$1,177,000 and \$1,260,000 to this plan for the six months ended June 30, 2001 and 2000, respectively.

The Company's union employees are covered by union-sponsored, collectively bargained, multi-employer pension plans. Contributions are generally determined in accordance with the provisions of negotiated labor contracts and generally are based on the number of man-hours worked. Contributions to the plans were \$375,000 and \$332,000 during the six months ended June 30, 2001 and 2000, respectively.

HARRAH'S has various incentive plans under which restricted shares or stock options may be granted to key employees of the Company.

Continued

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements

EMPLOYEE BENEFIT PLANS (continued)

Compensation expense of \$261,000 and \$315,000 was recognized for the six months ended June 30, 2001 and 2000, respectively.

(11) NEW JERSEY INVESTMENT OBLIGATION

The New Jersey Casino Control Act provides, among other things, for an assessment of licensees equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the Casino Reinvestment Development Authority (CRDA). CRDA Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below market rates. The Company includes CRDA investment bonds and funds on deposit in deferred charges and other noncurrent assets in the accompanying balance sheets. The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment obligations.

Deposits with the CRDA bear interest at two-thirds of market rates resulting in a current value lower than cost. At June 30, 2001 and 2000, Investments, Advances & Receivables include \$16,749,000 and \$12,486,000, respectively, representing the Company's bond purchases and deposits with the CRDA of \$22,702,000 at June 30, 2001 and \$17,680,000 at June 30, 2000 net of a valuation allowance of \$5,952,000 and \$5,918,000, respectively. The carrying value of these deposits, net of the valuation allowance, approximates fair value.

The Company is eligible to receive approximately \$11.5 million in funding credits reserved by the CRDA, as a result of the completion of the hotel expansion program at the Atlantic City Showboat, completed in 1994. To date, the Company has received approximately \$11.3 million of the \$11.5 million. The remaining \$.2 million of reserved funding credits will be distributed in the future.

In December 1999 the CRDA approved a credit exchange agreement between the Company and Harrah's Casino Hotel. (Harrah's) The CRDA approved an exchange of \$4.6 million of Harrah's South Jersey Future Obligations for 4.6 million from the Company's Atlantic City Housing Current Obligations. The exchange was implemented by the immediate transfer of \$4.6 million from the Company's Atlantic City Housing Obligations to Harrah's. In accordance with the exchange agreement, \$4.6 million of Harrah's South Jersey Future Obligations shall be transferred back to the Company's South Jersey Current Obligations upon payment by Harrah's of such Obligations received by the CRDA on future Quarterly Payment Dates.

(12) COMMITMENTS AND CONTINGENCIES

The Company is a party in various legal proceedings with respect to the conduct of its casino and hotel operations. Although a possible range of loss cannot be estimated, in the opinion of management, settlement or resolution of the proceedings should not have a material adverse impact on the financial position or results from operations of the Company.

STATEMENT OF CONFORMITY, ACCURACY AND COMPLIANCE

STATE OF New Jersey :
COUNTY OF Atlantic :
SS

Ray Spera being duly sworn according to law upon my oath deposes and says:

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.

Cheryl Cheeks for B. Sperry
Signature

Vice President of Finance & Admin.
Title

2369-11
License Number

Atlantic City Showboat, Inc.
Casino Licensee

James B. Jones

JANE B. ALOSI
NOTARY PUBLIC OF NEW JERSEY
 My Commission Expires Aug. 11, 2005